Report for August 2019

Issued August 30, 2019

National Association of Credit Management

Combined Sectors

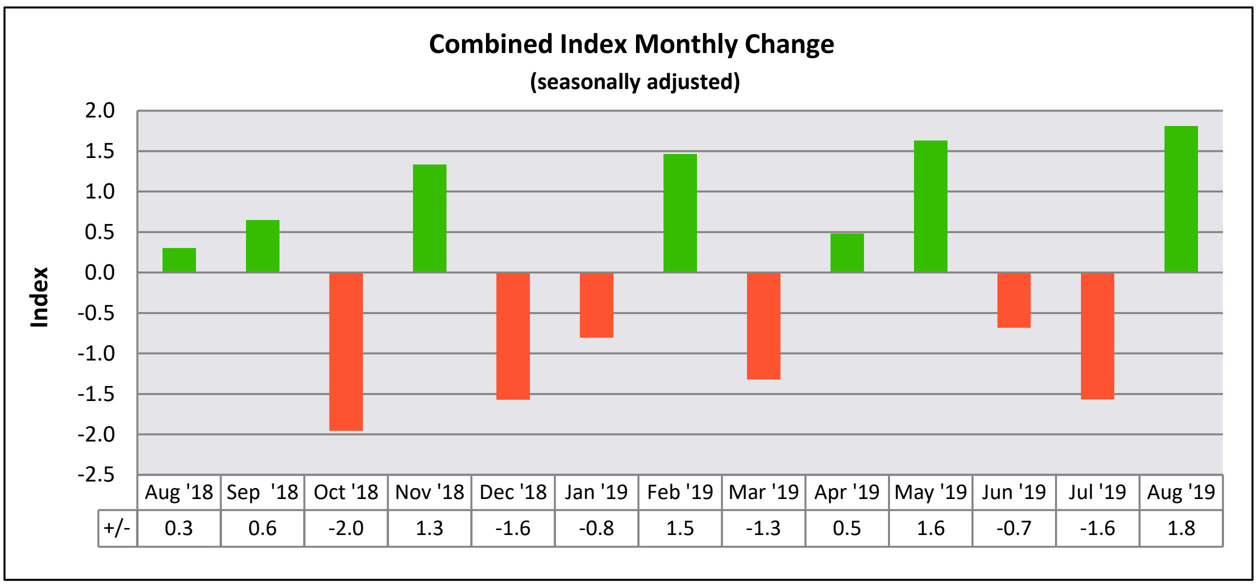
Just when it seemed safe to settle into a good funk, the Credit Managers' Index (CMI) tracked in a very positive direction. "The CMI was not the only indicator that experienced a reversal of fortune, but while that trend seemed to be on the upswing for some, there were those readings that showed further decline," said NACM Economist Chris Kuehl, Ph.D. "The economy appears to be in a transition phase again. It is not entirely clear, however, what it is transitioning from or what it might be transitioning to." He added that the latest durable goods data shows an improvement, but most of that is due to the changes in the more volatile aerospace sector. The data from Markit's PMI (Purchasing Managers' Index) was showing numbers that are in the contraction zone (a reading below 50). There has been better news as far as capital spending but bad news as far as capacity utilization. "In short, there is a little something for both the glass-half-full and the glass-half-empty crowds."

The combined score for the CMI this month was a very solid 55.2. That puts the index right back where it was in June when it was at an even 55. It is not quite at the level reached in May when it hit 55.7, but it is far better than last month's 53.4. The combined score for the favorable factors jumped back into the 60s with a reading of 61.8 compared to the 58.6 notched in July. Again, the readings are not as robust as in May when they hit 63.8, but the trend is pointing in a more positive direction. The combined score for the unfavorable factors also improved, but by the narrowest of margins. It was 50 the month prior when it appeared likely to fall into contraction territory, but this month the pattern reversed and it climbed up slightly to 50.9.

As usual, the details are the most informative. There was a nice recovery in the sales data from 58.4 in July to 64.4 this month. This is not the highest point reached this year, but it is in the top five. In May, it was standing at 65.9, the second-highest level reached in the last 12 months. The new credit applications number remained very close to what it had been the month prior, moving from 60.8 to 60.9. This is still a bit lower than the reading in the last several months and seems to indicate a little more caution manifesting. The dollar collections numbers improved quite a bit; always good news. Last month, the reading was 56.6—down from 60.3 in June, but this month the numbers are back to 60. The amount of credit extended also returned to the 60s with a reading of 61.7, just shy of the 62.5 number from June. Kuehl suggests that all in all, it appears July was something of an aberration, or simply a traditionally slower month.

The specifics of the unfavorable categories are informative as well. The data on rejections of credit applications remained very close to what it was in July at 52.6, but it dropped slightly to 52.1 this month. These are decent numbers, which is important given there was a decline in the new applications data. "It suggests that those asking for credit are getting it and this is taking place even as credit managers are trying to get a little tighter with their decisions," Kuehl said. The accounts placed for collection remain in the contraction zone, but not as deep as before. The reading last month was 46.2, and now it stands at 48.6. This is not exactly good news, but the trend is more acceptable. Disputes, however, slid out of expansion territory into contraction by going from 50.5 to 49.4. The dollar amount beyond terms improved quite a lot, "a nice trend as the holiday spending season gets underway." It was at 46.1 and buried pretty deeply in contraction, but it has reentered the expansion category with a reading of 53.6. The amount of customer deductions slipped from 51.2 to an even 50, but at least it has not fallen into contraction. The filings for bankruptcies have become a bit of a concern, however. The reading this month is 51.6, the lowest it has been in well over three years. Kuehl explained there have been companies hanging on by a thread, and it now appears some can't handle the economic reversals that have emerged in the last few years.

Combined Manufacturing and Service Sectors (seasonally adjusted)	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19
Sales	65.0	68.8	62.7	64.5	59.0	59.7	62.6	58.2	61.0	65.9	60.4	58.4	64.4
New credit applications	62.5	61.9	61.7	62.2	57.5	58.2	58.9	57.8	59.7	64.2	62.4	60.8	60.9
Dollar collections	62.6	62.8	57.5	60.9	59.3	59.0	59.1	56.6	59.1	59.8	60.3	56.6	60.0
Amount of credit extended	66.9	67.1	64.5	65.3	61.9	61.2	62.3	63.5	60.6	65.4	62.5	58.7	61.7
Index of favorable factors	**64.3**	**65.2**	**61.6**	**63.2**	**59.4**	**59.5**	**60.7**	**59.0**	**60.1**	**63.8**	**61.4**	**58.6**	**61.8**
Rejections of credit applications	52.2	51.8	51.4	51.4	51.4	51.8	52.1	51.2	52.0	51.8	52.4	52.6	52.1
Accounts placed for collection	49.0	50.2	48.8	48.2	49.7	48.2	49.0	46.4	48.5	47.0	50.0	46.2	48.6
Disputes	46.4	47.6	48.9	50.1	49.6	47.1	48.5	49.5	48.5	48.6	48.6	50.5	49.4
Dollar amount beyond terms	48.5	49.9	47.7	52.3	49.3	47.4	51.3	50.0	47.6	51.3	49.8	46.1	53.6
Dollar amount of customer deductions	48.7	48.6	49.5	49.6	49.7	48.0	50.0	48.8	49.7	49.3	50.0	51.2	50.0
Filings for bankruptcies	55.9	55.6	52.1	53.6	55.0	53.8	54.9	53.7	53.9	53.3	53.5	53.2	51.6
Index of unfavorable factors	**50.1**	**50.6**	**49.7**	**50.9**	**50.8**	**49.4**	**51.0**	**49.9**	**50.0**	**50.2**	**50.7**	**50.0**	**50.9**
NACM Combined CMI	**55.8**	**56.4**	**54.5**	**55.8**	**54.2**	**53.4**	**54.9**	**53.6**	**54.0**	**55.7**	**55.0**	**53.4**	**55.2**



Manufacturing Sector

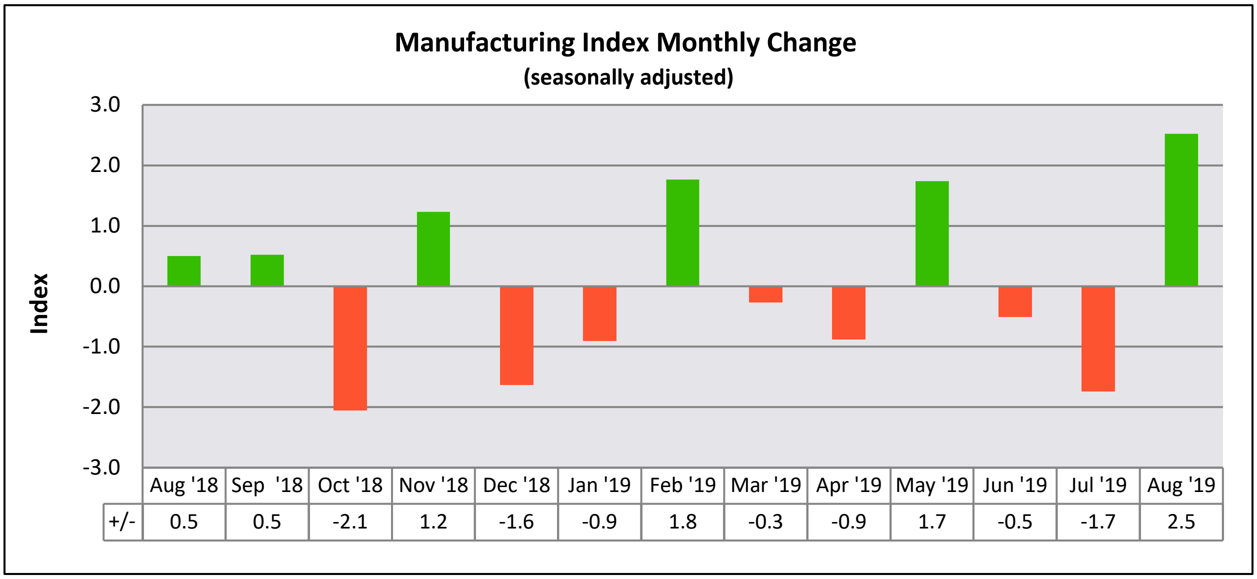
For this sector, Kuehl says that as concerns about the economy begin to mount, the focus of most of the concern has been manufacturing. There have been distinct indications that factors such as the on-again, off-again trade war has been having an impact as well as more long-term threats, such as labor shortages and declining demand in such key areas as agriculture and aerospace. Even with these challenges, there were some decent numbers in important sectors.

The combined index reading of 55.7 was back to the levels seen in May of this year (55.4) after being at 53.2 in July. The index of favorable factors jumped back into the 60s with a reading of 61.6 from 56.7 the month before. This category has been above 60 in all but four of the last 12 months. The unfavorable index extended further into expansion territory with a reading of 51.7 compared to last month's 50.8. "All in all, it showed a better set of indicators than some of the other manufacturing indices," he said.

The sales category surged to a level not seen in many months. It is sitting at 65.3, the highest point since September of last year. "This has been despite the travails of Boeing and the sharp drop in demand for farm equipment," Kuehl noted. "Even the dip in exports did not seem to affect the sector this month. It seems there has been a solid demand for vehicles and machinery—especially in the energy sector and in the general category of robotics." The new credit applications remained almost exactly where they were last month (60.1 as compared to 60). The dollar collections data also improved significantly as it moved from 54.7 to 59.6. The amount of credit extended broke back into the 60s with a reading of 61.4 from 54.7 in July. "The good news may have been flowing only from select sectors, but these have been strong enough to carry the whole sector," he added.

The rejections of credit applications remained very close to what had been seen earlier—53 compared to 53.4 in July. "This is good given the activity in new applications," Kuehl said. "It is not uncommon for companies to desperately seek credit when times are tough. That is why rejections move up." The accounts placed for collection jumped out of the contraction zone with a reading of 50.6 compared to 46.7 in July; "that is very encouraging," he added. The disputes category sank slightly (51 to 50.3), but it still remained in expansion territory. The dollar amount beyond terms moved into expansion territory with a reading of 55.9 compared to the 48 registered in July. The dollar amount of customer deductions slipped, however, as it went from 52.7 in July to contraction territory in August with a reading of 49.3. There are some early warning signs showing up in filings for bankruptcies with the drop from 53 to 51.4, the lowest reading seen in over three years. Kuehl explained there have been some manufacturing sectors that have taken real hits thus far this spring, and some are not going to survive.

Manufacturing Sector (seasonally adjusted)	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19
Sales	66.5	68.2	62.3	64.2	59.0	59.1	61.7	58.4	58.6	63.3	58.5	57.6	65.3
New credit applications	61.4	61.8	61.5	61.7	56.8	53.3	58.6	61.2	59.8	63.9	62.5	60.0	60.1
Dollar collections	62.4	59.0	58.5	61.6	59.0	58.4	60.5	57.8	58.6	60.5	59.2	54.7	59.6
Amount of credit extended	67.1	68.5	63.7	65.4	60.9	60.3	59.2	63.9	58.5	64.6	61.3	54.7	61.4
Index of favorable factors	**64.4**	**64.4**	**61.5**	**63.2**	**58.9**	**57.7**	**60.0**	**60.3**	**58.9**	**63.1**	**60.4**	**56.7**	**61.6**
Rejections of credit applications	53.7	53.1	51.9	53.1	51.6	53.3	53.5	53.2	53.1	52.5	53.8	53.4	53.0
Accounts placed for collection	49.6	51.2	49.1	49.2	50.3	49.7	50.5	46.8	49.3	49.0	53.5	46.7	50.6
Disputes	45.8	48.7	48.7	49.6	48.6	46.8	48.7	50.2	47.7	48.2	48.3	51.0	50.3
Dollar amount beyond terms	48.4	50.2	49.1	50.3	50.0	49.1	52.8	51.0	48.5	51.8	50.2	48.0	55.9
Dollar amount of customer deductions	48.1	47.4	48.0	48.6	49.1	46.7	49.3	48.4	49.5	48.4	49.8	52.7	49.3
Filings for bankruptcies	56.0	56.0	50.9	52.2	54.4	54.0	53.3	54.6	53.3	52.0	52.0	53.0	51.4
Index of unfavorable factors	**50.2**	**51.1**	**49.6**	**50.5**	**50.7**	**49.9**	**51.4**	**50.7**	**50.2**	**50.3**	**51.3**	**50.8**	**51.7**
NACM Manufacturing CMI	**55.9**	**56.4**	**54.4**	**55.6**	**54.0**	**53.1**	**54.8**	**54.6**	**53.7**	**55.4**	**54.9**	**53.2**	**55.7**



Service Sector

As for the service sector, Kuehl said it is both immensely important and almost impossible to accurately assess. It is by far the dominant sector in the U.S., both in terms of its impact on GDP (it accounts for approximately 80% of the total) and employment (again, over 80%). Nearly all of the hiring in the last 12 months has been in the service sector (close to 95%). The challenge is the sector is vast—everything from health care to retail to construction and transportation. Tracking the changes requires some attempt at isolating what is being measured. The bulk of the CMI service sector is retail, but there are also significant contributions from transportation, construction and finance.

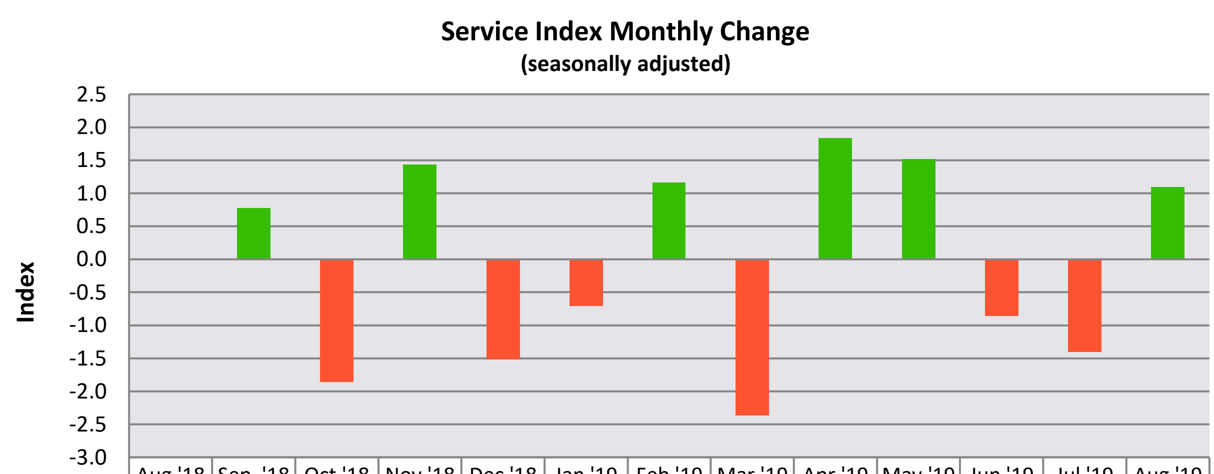
"This is the time of year, retail comes into sharp contrast," Kuehl said. "For the next several months, all eyes will be on the consumer and their behavior during the holiday period. Thus far, it seems to be off to a decent start, but the retailers are still approaching the season with an 'inventory light' attitude."

The combined score for the service index recovered some lost ground from July, but is still off from the month previous. The current reading is 54.8, better than July's 53.7, but not as robust as the 55.1 in June or the 55.9 in May. The combined score for the favorable factors remained in the 60s and was a little stronger than July's 60.5 with a reading of 61.9. The index of unfavorable factors returned to expansion territory but by the narrowest of margins (49.1 to an even 50).

The sales numbers will be very closely watched from this point. Right now, the reading stands at 63.4. It was previously at 59.3. "It is expected these numbers will steadily improve as the holiday season gets into full swing," Kuehl noted. The new credit applications data stayed almost the same as the prior month, but these are very good numbers—61.6 in July and 61.7 in August. The dollar collections readings improved and returned to the 60s with a reading of 60.4 compared to 58.4 in July. The amount of credit extended stayed nearly static with a reading of 62.1 after 62.6 last month.

The rejections of credit applications were also nearly stationary, dropping from 51.9 to 51.2. "These are encouraging numbers as they suggest most of those seeking credit are receiving it," Kuehl said. The accounts placed for collection remain stuck in contraction territory, but there has been a slight upward trend with a reading of 46.7 from 45.7 in July. The disputes category went down, however, and is now in contraction territory with a reading of 48.5 compared to last month's 50. The dollar amount beyond terms jumped quite a lot and escaped the doldrums of contraction dramatically. In July, the reading was 44.2 and this month it is at 51.2—comfortably in expansion territory. The dollar amount of customer deductions also escaped the contraction zone with a reading of 50.6 from 49.7. “As with manufacturing, there is growing concern over the rate of bankruptcies,” he said. “The filings from the bankruptcies index went from 53.4 to 51.9, the lowest mark set in over three years. This is especially worrying for retail since traditionally the biggest threat of bankruptcy activity is after the holiday season when some companies find they have badly missed their revenue and profit targets.”

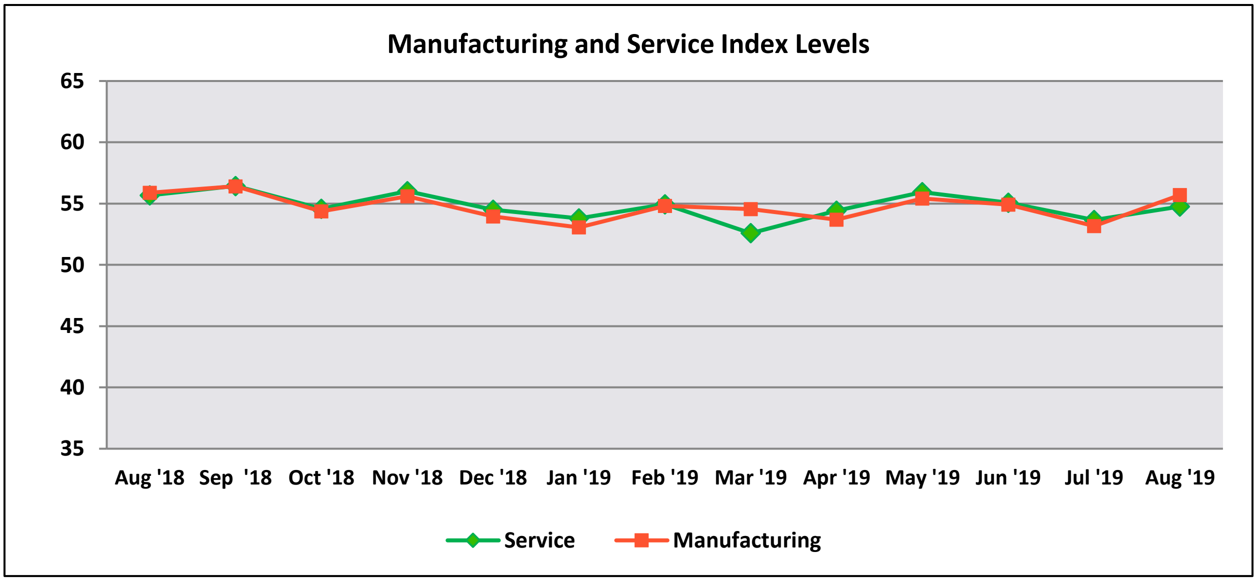
Service Sector (seasonally adjusted)	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19
Sales	63.4	69.4	63.2	64.9	59.0	60.3	63.5	58.0	63.4	68.5	62.3	59.3	63.4
New credit applications	63.5	62.0	61.9	62.7	58.2	63.0	59.2	54.3	59.6	64.6	62.4	61.6	61.7
Dollar collections	62.9	66.5	56.4	60.1	59.6	59.6	57.7	55.5	59.6	59.1	61.4	58.4	60.4
Amount of credit extended	66.7	65.8	65.2	65.2	63.0	62.1	65.5	63.2	62.7	66.3	63.7	62.6	62.1
Index of favorable factors	**64.2**	**65.9**	**61.7**	**63.2**	**59.9**	**61.3**	**61.5**	**57.7**	**61.3**	**64.6**	**62.4**	**60.5**	**61.9**
Rejections of credit applications	50.7	50.5	50.9	49.7	51.2	50.3	50.8	49.1	50.8	51.2	51.0	51.9	51.2
Accounts placed for collection	48.5	49.2	48.4	47.2	49.1	46.7	47.5	46.0	47.7	45.1	46.6	45.7	46.7
Disputes	47.0	46.4	49.1	50.6	50.5	47.4	48.3	48.9	49.4	49.0	48.8	50.0	48.5
Dollar amount beyond terms	48.6	49.6	46.3	54.3	48.5	45.7	49.8	49.0	46.7	50.9	49.3	44.2	51.2
Dollar amount of customer deductions	49.3	49.7	51.1	50.7	50.3	49.2	50.6	49.1	49.8	50.1	50.3	49.7	50.6
Filings for bankruptcies	55.9	55.3	53.2	54.9	55.6	53.6	56.5	52.7	54.6	54.5	55.0	53.4	51.9
Index of unfavorable factors	**50.0**	**50.1**	**49.8**	**51.2**	**50.9**	**48.8**	**50.6**	**49.1**	**49.8**	**50.1**	**50.2**	**49.1**	**50.0**
NACM Service CMI	**55.7**	**56.4**	**54.6**	**56.0**	**54.5**	**53.8**	**55.0**	**52.6**	**54.4**	**55.9**	**55.1**	**53.7**	**54.8**



	Aug '18	Sep '18	Oct '18	Nov '18	Dec '18	Jan '19	Feb '19	Mar '19	Apr '19	May '19	Jun '19	Jul '19	Aug '19
+/-	0.0	0.8	-1.9	1.4	-1.5	-0.7	1.2	-2.4	1.8	1.5	-0.9	-1.4	1.1

August 2019 versus August 2018

"It looks more and more like July was an outlier in terms of the CMI data," Kuehl concluded. "Most of the August numbers have returned to the trends started in May and carried through June. The next question is whether September reverses course or matches August and June."



Methodology Appendix

CMI data has been collected and tabulated monthly since February 2002. The index, published since February 2003, is based on a survey of approximately 1,000 trade credit managers in the second half of each month, with about equal representation between the manufacturing and service sectors. The survey asks respondents to comment whether they are seeing improvement, deterioration or no change for various favorable and unfavorable factors. There is representation from all states, except some of the less populated, such as Vermont and Wyoming. The computation of seasonality is based on the formula used by the U.S. Census Bureau and most of the federal government's statistical gathering apparatus, making it possible to compare the CMI diffusion index with comparable indices, such as the Purchasing Managers' Index (PMI) and other manufacturing and service sector indices.

Factors Making Up the Diffusion Index

As shown in the table below, 10 equally weighted items determine the index. These items are classified into two categories: favorable factors and unfavorable factors. A diffusion index is calculated for each item with the overall CMI being a simple average of the 10 items. Survey responses for each item capture the change—higher, lower or the same—in the current month compared to the previous month.

For positive indicators, the calculation is:

$$\frac{\text{Number of "higher" responses} + \frac{1}{2} \times \text{number of "same" responses}}{\text{Total number of responses}}$$

For negative indicators, the calculation is:

$$\frac{\text{Number of “lower” responses} + \frac{1}{2} \times \text{number of “same” responses}}{\text{Total number of responses}}$$

A resulting CMI number of more than 50 indicates an economy in expansion; less than 50 indicates contraction.

Favorable Factors	**Why Favorable**
Sales	Higher sales are considered more favorable than lower sales.
New credit applications	An increase in credit applications says that demand is greater, which represents increased business if credit is extended.
Dollar collections	Higher dollar collections represent improved cash flow for the selling firm and the ability of buying firms to pay.
Amount of credit extended	An increase for this item means business activity is expanding with greater sales via trade credit.
Unfavorable Factors*	**Why Unfavorable**
Rejections of credit applications	Increased rejections of credit applications means more marginal creditworthy customers are seeking trade credit and being denied.
Accounts placed for collection	As this item increases, the selling firm is having trouble collecting accounts, or conversely, there is an increase in buyers not paying.
Disputes	Higher dispute activity often is associated with cash flow problems of customers. They dispute the invoice to defer payment until later.
Dollar amount of receivables beyond terms	As this item becomes higher, it means customers are taking longer to pay.
Dollar amount of customer deductions	Higher deductions often are associated with cash flow problems of customers.
Filings for bankruptcies	Higher bankruptcy filings mean cash flow difficulties of customers are increasing.

**Note: When survey respondents report increases in unfavorable factors, the index numbers drop, reflecting worsening conditions.*

About the National Association of Credit Management

NACM, headquartered in Columbia, MD, supports more than 11,000 business credit and financial professionals worldwide with premier industry services, tools and information. NACM and its network of affiliated associations are the leading resource for credit and financial management information, education, products and services designed to improve the management of business credit and accounts receivable. NACM's collective voice has influenced our nation's policy makers on federal legislation concerning commercial business and trade credit for more than 100 years and continues to play an active role in legislative issues that pertain to business credit and corporate bankruptcy. Its annual Credit Congress & Expo is the largest gathering of credit professionals in the world.

NACM has a wealth of member experts in the fields of business-to-business credit and law. Consider using NACM as a resource in the development of your next credit or finance story.

View CMI archives at https://www.nacm.org/cmi/cmi-archive.html.

Source: National Association of Credit Management

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